Statement by Howard W. Hjort
Director of Economics, Policy Analysis and Budget
U.S. Department of Agriculture
before the House Agriculture Committee, Subcommittee
on Family Farms, Rural Development and Special Studies
June 20, 1978

Mr. Chairman I am pleased to discuss perspectives on the issue of foreign ownership of U.S. real estate and describe some work underway in the Department of Agriculture.

We are acutely aware of the extensive publicity on purchases of U.S. real estate by foreigners. Much of this publicity has been focused on purchases of farmland. Although the press has been useful in highlighting the foreign investment issue, and calling attention to a number of notable transactions, it has not provided, nor should it be expected to provide, systematic data and analyses on the quantity and importance of these purchases.

So far as we know there are no accurate estimates of the quantity of land in foreign ownership or the number of foreign owners. In 1975 the Commerce Department as part of its study of foreign direct investment in the U.S. asked all 6,000 respondents in their survey to report on landholdings in excess of 200 acres. Total land owned, as reported in that survey, was 4.9 million acres. Using that number as a base and adding liberally to account for foreign acquisitions since then 1/ we conclude that no more than one percent of private land could be held by foreigners. Even if all of that were farmland (which it is not) it would be only slightly more than one percent of U.S. farmland.

We do not believe that the amount of farmland owned by foreign investors per se has had a significant impact on farmers or the agricultural

1/ At current rates of acquisition, and allowing for no disposition, reported holdings of 1.2 million would be added to the total, yielding a current total of about 6.1 million acres. Double this amount would still be less than 1 percent of private land.

economy at this time. Of greater concern are overall trends in land ownership in the United States, the impact of these trends on the structure of agriculture and the future viability of a family farm system, and the use and distribution of our land. Of particular importance are government policy decisions, both within and outside agriculture, which impact these trends.

Before I begin to address the questions which this committee submitted to us on the foreign investment issue, I would like to give a brief background on the changing economic role of farmland in the U.S. It is within this context that questions concerning investment in U.S. farmland, either by foreign interests, wealthy Americans, corporations, investment trusts, or farmers, must be evaluated.

We have recently gone through a time in our history when farmland in the United States had more value as an investment asset than as a productive asset. Since 1970, average farmland value across the United States has more than doubled; in some areas of the midwest it has tripled. Significantly, during the period of time between 1972 and 1976 the capital gains possible on all U.S. farmland were estimated at $339 billion; the income earned off the production of that land was $144 billion, or less than half of that. According to our estimates, farmland value will climb another 6-8 percent during the year beginning February 1978.

Perhaps with the exception of an oil well in Saudi Arabia, there have been few investment opportunities in the seventies which were both as lucrative and safe as U.S. farmland as a hedge against inflation. I have with me today a chart which compares farm real estate with the General Price Index and with Common Stocks since 1965. From that year to 1977 the farm real estate index more than tripled, while the GNP deflator did not quite double, and the Standard and Poors 500 stock

average was essentially unchanged. With the additional incentive of diversification of investments, the security of farmland investment, and the favorable price of U.S. farmland compared to farmland prices in Western Europe and Japan, there is little reason to wonder why the farm real estate market has been so attractive to investors.

The impact of investment by foreign entities, various kinds of trusts, corporations, and wealthy individuals on land prices and the structure of agriculture in this country is simply not statistically available at this time. In some part, this is due to the inadequacy of our data base and the lack of a nationwide system to keep track of land ownership. Furthermore, with only about 3 percent of the Nation's farmland changing hands in any one year, the impacts of any trend are slow to show up in the statistics that are gathered. It is reasonable to assume that if farmland remained as attractive an investment in the future as it has in the past few years, the number of investors would continue to increase. Therefore, we must separate our assessment of current impact from potential future impact in our responses.

Farm Real Estate Price Increases

Recent increases in farmland prices is due to many factors, but most particularly to favorable crop prices during 1972-75 and farmers bidding against other farmers to expand their current farm sizes. USDA statistics show that in 1976, for example, 65 percent of the land transferred went to active farmers--the rest went to local non-farmers, non-county residents, or "others." By far the largest percentage of land sold was to expand acreage of existing farms: in 1976 farm enlargement accounted for 63 percent of all farm tract purchases.

From purchases of farmland we have been able to identify since January 1, 1977, we estimate the annual value of farmland sold to foreign

investors would amount to around $120 million. Even if we doubled that amount, foreign purchases would represent only about 1 percent of the annual value of sales of farmland in the U.S.

In a competitive land market, with a large number of potential investors, the price will tend to be set by the value of land of the most highly efficient and largest farms. There are a number of kinds of purchasers which will have an advantage in this kind of market. Older farmers, who have large operations which they have purchased years ago at relatively low land prices, can spread the cost of the new land over their entire acreage and usually save on the cost of other agricultural inputs which can be used more efficiently on the larger acreage. They can, therefore, afford to pay more for a given parcel of land than can a smaller farmer, whose per acre costs are higher, or a younger farmer whose land was bought at higher prices. Thus, a rising land market tends to both increase land prices at the same time as it tends to bid land away from smaller, "less efficient" farmers to larger, more well established ones.

Impact on the Size of Farms

There are no statistics which adequately relate foreign investment with any specific size of farm. However, foreign investment in agricultural land is conducive to leasing to tenants, or engaging in farming directly by employing a full time manager, or by using a farm management company. The U.S. Census of Agriculture consistently shows both tenant operated farms, and farms operated by owners who also rent a portion of their units are larger in land area than farms entirely owned by the operator. The largest farm size are those operated by managers. Furthermore, since the residual returns to land are the greatest on the larger farm, it is these farms which offer the greatest profit opportunities and

would be the best natural candidates for investment.

Impact on Taxes

As land values are increased for whatever reason, the ad valorem real property tax will be increased if the tax rate remains the same. The cash flow problems caused by increasing taxes on appreciating assets is recognized. Reducing the tax rates will only have the effect of further increasing land values, thus enhancing the speculative or investment, as against the productive, aspect of farming. This is indeed an important issue, but again one which extends beyond foreign investment.

Impact on Intergenerational Transfer

The problem of passing farmland from one generation to another is of serious concern to both policy makers and farmers. Again, the problem is the general one of land price inflation, rather than foreign investment. As the value of the land increases, so must the amount of death taxes, which can become an unsustainable burden for the heirs. On the other hand, as with real estate taxes, if relief is provided through increased inheritance tax exemption, the attractiveness of using land as an intergenerational wealth shelter increases, making the land more valuable as an investment and adding additional price pressure.

The Separation of Capital, Labor and Management

Perhaps the single most important structural change which may be occuring in the agricultural sector today is the increasing frequency of the separation of ownership from operation, in some part encouraged by the attractiveness of farmland investment. Traditionally family farmers have taken their profits in terms of making a living on the combined earnings of the land, their labor and their management skill. However, as these functions are separated, rather than taking the combination of all three jointly producing a decent living, each will require its own

competitive return. Managers will require a salary on scale with industry. The new capital asset base will have to compete in tight and expensive capital markets, drawing capital away from other uses and paying whatever price the market imposes to meet that competitive need. Land will increasingly reflect its investment value, rather than its productive value, as it has in recent years.

Impact on Absentee Ownership

To the extent that farmland is transferred out of the hands of farmers and into the hands of absentee landowners of any kind, there will be impacts on the community. Depending on the use of the holding, and its profitability, as well as the business decisions made by the owner, the net flow of income may be into or out of the community. If the land is owned by persons who do not contribute to community decision-making, public action, local service, and general community interest, then the effect may be negative. Again, I submit that this problem is no more or less severe if the absentee owner is located in Chicago, New York, or Tokoyo or Milan.

National Interest

The issue of foreign domination of food supplies can be treated directly. If a foreign country (aside from the investors of that country) wished to create harm to the U.S. or its citizens, the control of food supplies through ownership of one resource would be extremely inefficient and probably ineffective if tried. Obviously, domination of commodities is far easier and direct than ownership of land. If foreigners do get land at bargain prices and export profits, there would be a long run negative effect on the balance of payments. However, it is unlikely that special ability to seek out and purchase bargains would be among the advantages one might ascribe to foreign investors.

Impact on Balance of Trade, Commodity Prices, Farm Income and U.S. Exports

We have no way to statistically measure any impact foreign investment in farmland might have on commodity prices, balance of trade, farm income of U.S. exports. Because of the limited extent of foreign investment in farmland, these impacts are probably negligible.

Conclusions

We do not feel that the situation of outside investor ownership of farmland has reached the kind of crisis proportions frequently portrayed in the media to warrant any action to restrict such ownership. We do feel, however, that the situation of land ownership in general and its impact on the family farm structure, requires more careful monitoring than has taken place in the past.

There are a number of steps we are undertaking at the Department of Agriculture to both improve our data base on land ownership and control, and to look at the secondary impacts of land investment on the structure of American agriculture and family farmers.

We are currently seeking to improve our statistics on land ownership. The Resource Economic Survey of Land Ownership is now underway and results of that survey will be available late this year and early in 1979. The survey is a sample of 50,000 places of non-Federal land and was designed to provide State level estimates of the principal owner characteristics. It includes questions on the residence and citizenship of the owner. The survey data will permit us to determine who owns the land; the type of owner (individuals, corporations, trusts, etc.); the characteristics of owners such as occupation, income, age; the total quantity of land held and its use; and the land improvements, management, acquisitions and dispositions. The survey will provide a data base from which analyses can determine how owners affect the way land is used, how

ownership of land affects the distribution of program benefits and costs and how wealth is distributed among segments of our population.

Although the national land ownership survey may supply some information on foreign holders it was intended for the larger picture of landownership. Because the number of foreign owners is small and the quantity of land owned by them is small, the sample survey cannot provide all the desired detail on foreign ownership. Furthermore, the use of nominees, trusts, partners, corporations and other devices to mask the identity of owners may obscure the actual ownership patterns.

As the International Investment Survey Act of 1976 (IISA) recognized, and the recent GAO report confirmed, the lack of adequate facts is a problem in analyzing the foreign ownership issue. Under Section 4(d) of the IISA the President was directed to:

> ...conduct a study of the feasibility of establishing a system to monitor foreign direct investment in agricultural, rural, and urban real property, including the feasibility of establishing a nationwide multi-purpose land data system...

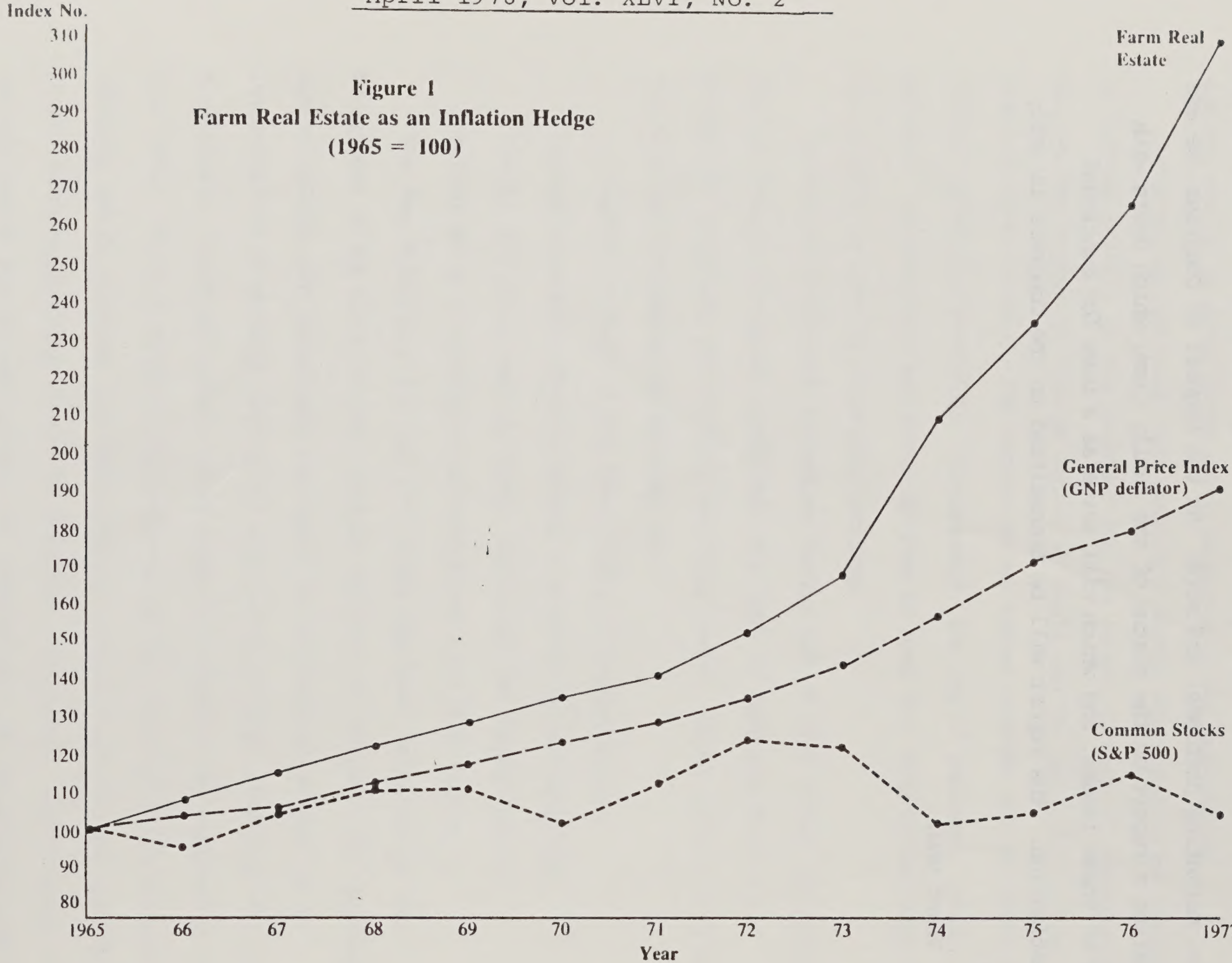
The responsibility for the 4(d) study has been delegated to the Department of Agriculture and, pending approval of Congress for supplemental appropriation, the Department has begun the preliminary stages of an investigation of several methods of monitoring foreign ownership of U.S. real estate, urban and rural. This study is scheduled for completion in late 1979. It will examine such problems as the means by which ownership identity can be cloaked; the usefulness of public title and tax records in providing aggregative data; the adequacy, timeliness, and accuracy of various public and private sources of information; and comparable methods of reporting in other countries.

In addition, we are increasing our attention to the structural

pressures on the family farm system, including land prices and ownership, taxes, marketing problems, and more. At the request of Congress, we are preparing a report on the status of the family farm, which deals with some of these issues, and which will serve as a base for continued investigation. The report will be transmitted to the Congress in early July.

Thank you.

Taken from The Appraisal Journal
April 1978, Vol. XLVI, No. 2



64.5

USDA 1755-78